

Message Text

UNCLASSIFIED

PAGE 01 QUEBEC 00130 01 OF 02 201733Z
ACTION EUR-12

INFO OCT-01 ISO-00 OMB-01 TRSE-00 CIAE-00 DODE-00
PM-05 H-02 INR-10 L-03 NSAE-00 NSC-05 PA-02
SP-02 SS-15 ICA-20 EB-08 COME-00 LAB-04 SIL-01
/091 W

-----106754 201750Z /41

P 192300Z APR 78
FM AMCONSUL QUEBEC
TO SECSTATE WASHDC PRIORITY 1310
INFO AMEMBASSY OTTAWA PRIORITY
AMCONSUL MONTREAL PRIORITY
AMCONSUL TORONTO PRIORITY

UNCLAS SECTION 1 OF 2 QUEBEC 0130

E.O. 11652: N/A
TAGS: ECON, FIN, CA
SUBJECT: QUEBEC BUDGET FOR FY 1978-79 PRESENTED APRIL 18

1. IN QUEBEC PROVINCIAL BUDGET PRESENTED APRIL 18 FINANCE
MINISTER PARIZEAU TOOK ADVANTAGE OF PAST INCREASES IN REVENUE
DUE TO INFLATION TO REDUCE AND RESTRUCTURE PERSONAL INCOME
TAX RATES. RECEIPTS FROM PERSONAL INCOME TAXES WILL BE REDUCED
7.5 PERCENT OR ABOUT CD 300 MILLION IN 1978 AND CD 500 MILLION
IN 1979. TAX STRUCTURE WAS MODIFIED TO MAKE IT MORE PROGRESSIVE.
BEGINNING NEXT YEAR PERSONAL EXEMPTIONS WILL BE PARTIALLY
INDEXED. TAX BREAKS GIVEN HOTEL, MINING, FORESTRY, FARM,
AND RECORDING INDUSTRIES. BUDGET REVENUE ESTIMATED AT CD
12.3 BILLION AND EXPENDITURES AT CD 13.3 BILLION. TOTAL FINANCING
REQUIREMENTS FOR PROVINCE ITSELF ESTIMATED AT CD 1,250 MILLION
IN FY 1978-79, UP FROM 955 MILLION LAST FISCAL YEAR. HYDRO
QUEBEC'S BORROWING REQUIREMENTS ESTIMATED AT CD 6 BILLION OVER
NEXT THREE YEARS. REAL ECONOMIC GROWTH IN QUEBEC FORECAST AT
4 PERCENT IN 1978, AND INFLATION AT SEVEN PERCENT. SALES TAX ISSUE
WITH FEDERAL GOVERNMENT REMAINS UNRESOLVED. BUDGET MENTIONED
NEED TO FINANCE PURCHASE OF ASBESTOS CORPORATION, BUT AMOUNT
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 QUEBEC 00130 01 OF 02 201733Z

NOT INCLUDED IN BUDGET PENDING COMPLETING OF NEGOTIATIONS.
COMMENTS SEPTEL. END SUMMARY

2. TAX CUTS. WITHOUT ANY CHANGES IN CURRENT UNINDEXED TAX STRUCTURE
PROVINCIAL REVENUE WOULD HAVE RISEN ABOUT 14 PERCENT DUE IN
LARGE PART TO INFLATION. WITH HIGHEST TAX BURDEN OF ANY
CANADIAN PROVINCE AND A SLACK ECONOMY, PARIZEAU TOOK ADVANTAGE

OF INCREASE IN EFFECTIVE TAX RATES FROM INFLATION TO REDUCE AND RESTRUCTURE PERSONAL INCOME TAXES. TAX RATES WERE REDUCED AT LOWEST END OF INCOME SCALE, GRANTING RELIEF TO MARRIED PERSONS EARNING CD 30,000 OR LESS AND SINGLE PERSONS EARNING LESS THAN CD 22,000. RATES WILL BE INCREASED FOR PERSONS EARNING MORE THAN THOSE AMOUNTS. RATES ALSO REDUCED FOR PERSONS OVER 65.

3. TAX CHANGES DONE PRIMARILY BY INCREASING INCOME EXEMPT FROM TAXATION. EXEMPTION WAS INCREASED TO CD 3,700 FOR COUPLES AND TO CD 900 PER DEPENDENT. ADDITIONAL EXEMPTION FOR THOSE OVER 65 RAISED TO CD 1,500. BASIC EXEMPTION FOR ALL PERSONS RAISED TO CD 3,600.

4. INDEXATION: AMOUNT OF EXEMPTION, BUT NOT TAX RATES ON TAXABLE INCOME, WILL BE PARTIALLY INDEXED. AMOUNT OF INDEXATION WILL BE PERSONAL JUDGEMENT CALL BY THE MINISTER OF FINANCE EACH YEAR BASED ON ANTICIPATED RATE OF INFLATION AND QUEBEC'S FISCAL REQUIREMENTS. PARIZEAU ANNOUNCED RATE OF INDEXATION FOR 1979 WILL BE SIX PERCENT. NUMBER OF TAX BRACKETS WAS INCREASED FROM 8 TO 21.

6. PROPERTY TAX CREDITS WILL BE INCREASED IN 1979 - A MEASURE WHICH MAY BENEFIT MUNICIPALITIES AS MUCH OR MORE THAN TAXPAYERS IF LOCAL TAXES ARE INCREASED AS A RESULT. CONTRIBUTIONS BY INDIVIDUALS TO HEALTH CARE PROGRAMS WERE ABOLISHED, BUT NOT THE EMPLOYER'S CONTRIBUTION.
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 QUEBEC 00130 01 OF 02 201733Z

7. BUSINESS TAXES: THE EIGHT PERCENT SALES TAX ON HOTEL ROOMS WAS ABOLISHED. THE FISCAL BURDEN OF THE HOTEL INDUSTRY WILL DROP BY CD 20 MILLION. THE TAX ON FUEL USED BY OFF HIGHWAY VEHICLES BY MINING, FORESTRY, AND LARGE SCALE FARMING OPERATIONS WAS REDUCED FROM 25 CENTS ON DIESEL OIL AND 19 CENTS ON GASOLINE TO 3 CENTS. IN ADDITION, SALES TAXES WERE ELIMINATED ON THE SALES TAX FOR FILMS, MAGNETIC TAPE, VIDEO TAPE, RECORDS, AND SIMILAR GOODS PURCHASED FOR PUBLIC BROADCASTING TO ENCOURAGE THE COMPETITIVENESS OF THE QUEBEC SOUND AND PICTURE RECORDING INDUSTRY.

8. TAXES WERE INCREASED ON TOBACCO NON-RETURNABLE CONTAINERS, AND PUBLICITY CONTENTS ALL OF WHICH WERE DEEMED "UNESSENTIAL CONSUMPTION." PARIZEAU SAID A TAX INCREASE ON BEER WAS PROPOSED, BUT HE DECIDED TO LEAVE THIS CULTURAL PROPERTY ALONE.

9. EXEMPTIONS FOR DEATH DUTIES WERE INCREASED AND SUCCESSION DUTIES ON FARM PROPERTY OR SHARES OF PRIVATE CORPORATIONS WERE CUT IN HALF.

10. QUEBEC PREVIOUSLY ANNOUNCED ELIMINATION OF ITS EIGHT

PERCENT SALES TAX FOR ONE YEAR ON TEXTILES, CLOTHING, SHOES, AND FURNITURE IN RESPONSE TO PROPOSALS FOR ACROSS THE BOARD CUTS IN PROVINCIAL SALES TAXES MADE IN THE FEDERAL BUDGET (SEE OTTAWA AND MONTREAL SEPTELS). PARIZEAU MADE NO MENTION OF THIS TAX REDUCTION IN HIS SPEECH ALTHOUGH IT HAS ALREADY GONE INTO EFFECT.

PARIZEAU TOLD REPORTERS ONLY THAT HE WAS STILL WAITING FOR A FORMAL RESPONSE FROM OTTAWA TO HIS PROPOSED FORMULA FOR SPLITTING THE FEDERAL AND PROVINCIAL FINANCING OF THIS CUT.

11. FINANCING: PARIZEAU ESTIMATED REVENUE AT CD 12,300 AND EXPENDITURES AT CD 13,335 MILLION FOR DEFICIT ON BUDGET TRANSACTIONS AT CD 1,035 MILLION. TOTAL FINANCE REQUIREMENTS ESTIMATED AT 1,250 MILLION, INCLUDING DEBT REPAYMENTS (SEE UNCLASSIFIED

UNCLASSIFIED

PAGE 04 QUEBEC 00130 01 OF 02 201733Z

TABLE). OF THIS AMOUNT, PARIZEAU SAID ABOUT CD 600 MILLION "WILL BE RESERVED FOR THE GOVERNMENT" FROM AMOUNTS PAID INTO THE CAISSE DE DEPOT ET PLACEMENT BY THE QUEBEC PENSION PLAN. TOTAL ASSETS OF THE CAISSE DE DEPOT ARE ESTIMATED TO RISE BY ABOUT CD 1.5 BILLION IN 1978. BALANCE OF FINANCING WILL BE FROM QUEBEC SAVINGS BONDS AND FROM SHORT AND LONG TERM BONDS IN CANADIAN CAPITAL MARKETS. PARIZEAU INDICATED HE FORESAW FEW BORROWINGS BY THE PROVINCE IN FOREIGN CAPITAL MARKETS.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 QUEBEC 00130 02 OF 02 201745Z
ACTION EUR-12

INFO OCT-01 ISO-00 OMB-01 TRSE-00 CIAE-00 DODE-00
PM-05 H-02 INR-10 L-03 NSAE-00 NSC-05 PA-02
SP-02 SS-15 ICA-20 EB-08 COME-00 LAB-04 SIL-01
/091 W

-----107053 201751Z /43

P 192300Z APR 78

FM AMCONSUL QUEBEC

TO SECSTATE WASHDC PRIORITY 1311

INFO AMEMBASSY OTTAWA PRIORITY

AMCONSUL MONTREAL PRIORITY

AMCONSUL TORONTO PRIORITY

UNCLAS SECTION 2 OF 2 QUEBEC 0130

12. HYDRO QUEBEC: PARIZEAU SAID HYDRO QUEBEC WILL NEED TO BORROW A TOTAL OF CD 6 BILLION IN THE THREE YEARS 1978-80, A BORROWING EFFORT WHICH "MUST BE SEEN AS A UNIT," AND ONE OF THE LARGEST FINANCIAL TRANSACTIONS EVER CARRIED OUT. AFTER 1980 THE NEED TO BORROW BY HYDRO QUEBEC FOR JAMES BAY WILL BE LESS AND ITS CASH FLOW WILL BE GREATER. PARIZEAU SAID HYDRO QUEBEC HAS ALREADY BORROWED THREE QUARTERS OF A BILLION US DOLLARS THIS YEAR FROM INTERNATIONAL BANKS, HAS A ONE HALF BILLION US DOLLAR LINE OF CREDIT, AND CAN EXPECT TO BORROW ON A LONG TERM BASIS THIS YEAR ABOUT CD 300 MILLION FROM THE CAISSE DE DEPOT AND FROM CANADIAN INVESTORS. THIS MEANS THAT IF HYDRO QUEBEC DOES NOT WISH TO DRAW DOWN ON ITS CREDIT LINE IT MUST LOOK FOR THE EQUIVALENT OF ABOUT CD 900 MILLION MORE, PART OF WHICH HAS ALREADY COME FROM SWITZERLAND AND GERMANY.

13. ASBESTOS CORP: PARIZEAU SAID THE SUM FOR THE PURCHASE OF ASBESTOS CORPORATION BY THE QUEBEC SOCIETE NATIONALE DE L'AMIANTE WAS NOT INCLUDED IN THE BUDGET BECAUSE METHODS AND AMOUNTS OF THIS TRANSACTION HAVE NOT YET BEEN DETERMINED. WHEN STUDIES RESPECTING DETERMINATION OF THE PRICE OF SHARES ARE UNCLASSIFIED

UNCLASSIFIED

PAGE 02 QUEBEC 00130 02 OF 02 201745Z

FINISHED, NEGOTIATIONS WILL BEGIN BETWEEN THE GOVERNMENT AND GENERAL DYNAMICS. PARIZEAU INDICATED NO MORE DIFFICULTY IS EXPECTED INCARRYING OUT THIS TRANSACTION THAN ANOTHER SIMILAR TRANSACTIONS BY QUEBEC.

14. CREDITWORTHINESS: PARIZEAU NOTED THAT IN THE LAST FISCAL YEAR FINANCIAL MARKETS PROVIDED THE PROVINCIAL GOVERNMENT AND HYDRO QUEBEC WITH MORE MONEY THAN ANY OTHER YEAR IN THEIR HISTORIES. THIS PROVES, HE SAID, JUST HOW THREATENED QUEBEC IS BY THE FLIGHT OF CAPITAL AND THE DEGREE OF LACK OF CONFIDENCE THESE MARKETS HAVE IN QUEBEC. "ECONOMIC AND FINANCIAL BLACKMAIL LOST OUT.

15. PARIZEAU COMMENTED THAT THE PAST YEAR HAD BEEN ONE OF "AUSTERITY" IN QUEBEC. THE TIDYING UP PROCESS IS FAR FROM OVER, BUT AFTER A YEAR THE GOV HAS GAINED SOME ROOM TO MANEUVER, MOST OF WHICH WAS DEVOTED TO REDUCING TAXES.

QYM PARIZEAU SAID HE HAD ONLY ONE REGRET - THAT THE GOVERNMENT OF QUEBEC CANNOT REORGANIZE SPENDING AND REDUCE TAXES FOR MORE THAN HALF OF QUEBEC'S RESOURCES BECAUSE OTHER HALF CONTROLLED BY FEDERAL GOVERNMENT. TO CHEERING PQ MEMBERS OF THE NATIONAL ASSEMBLY, WHO ENDED BY SINGING GENS DU PAYS, A SONG WHICH HAS ALMOST BECOME A NATIONAL ANTHEM IN QUEBEC, PARIZEAU SAID " "WHEN THE DAY COMES THAT QUEBEC IS THE MASTER OF ITS OWN

RESOURCES AND ITS OWN ECONOMY, WE WILL AT LEAST BE ABLE TO
COMPLETES WHAT IS ONLY A BEGINNING THIS YEAR..."

17. COMMENTS AND TABLE SEPTTEL. COPIES OF BUDGET MESSAGE WILL
BE POUCHED TO ADDRESSEES. MCNAMARA

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUDGETS, PROVINCE
Control Number: n/a
Copy: SINGLE
Draft Date: 19 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978QUEBEC00130
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780169-0560
Format: TEL
From: QUEBEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780440/aaaabhif.tel
Line Count: 229
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 33808bab-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2918585
Secure: OPEN
Status: NATIVE
Subject: QUEBEC BUDGET FOR FY 1978-79 PRESENTED APRIL 18
TAGS: ECON, EFIN, CA
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/33808bab-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014